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SUBJECT: UPDATE ON CHILE'S ECONOMY: ANOTHER MIXED DAY FOR MARKETS
ON OCTOBER 17

REFS: SANTIAGO 927 AND PREVIOUS

¶11. (U) SUMMARY: This is another in a series of updates on major developments in Chile's economy in the face of global financial turmoil. On October 17 copper prices fell further, the exchange rate appreciated slightly again, and the stock market moved up as well. A Chilean private pension fund announced it would suspend interim dividends until next year. President Bachelet, in a speech to UNASUR, said the region had to unite to prevent negative impacts of the financial crisis. Yields on bonds from the Central Bank rose as inflation expectations decreased. END SUMMARY.

Copper Prices Close Even Lower

¶12. (U) Copper closed at approximately \$2.13/pound, a fall of almost 4% on yesterday's price. This is copper's lowest price since January 2006.

Chilean Peso Edges Up Again vs. U.S. Dollar

¶13. (U) The exchange rate closed up again at about 618 Chilean Pesos to 1 U.S. Dollar (an increase of less than 1% on yesterday's rate).

Small Gain In The Stock Market

¶14. (U) The IPSA gained about 1.5% on yesterday's close.

Private Pension Fund Suspends Interim Dividends

¶15. (U) Private pension fund Provida announced today it will suspend all further interim dividends until next year, because of uncertainty stemming from the global financial crisis. Provida's earnings have fallen 48% from last year.

Bachelet Says Region Must Avoid Impact of Crisis

¶16. (U) President Bachelet, in a speech to UNASUR in Bolivia, said the region should come together to prevent the current crisis from ruining recent democratic and economic achievements. She also said the region must demand reform of multilateral institutions.

Bachelet predicted the current financial turbulence would impact the flow of investment into the region and demand for exports from the region. This would slow growth in the short term, which she said was "a tragedy."

Bond Yields Rise As Inflation Expectations Decrease

17. (U) Yields on Central Bank bonds (Bonos del Banco Central de Chile en Unidades de Fomento - BCU) rose as inflation expectations among investors decreased. The 5-year bond's yield to maturity rose from 3.24% to 3.28%. The 7-year bond's yield to maturity rose from 3.18% to 3.24%. The 10-year bond's yield to maturity rose from 3.15% to 3.18%.

SIMONS